



ARIZONA DEPARTMENT OF ECONOMIC SECURITY
Division of Children, Youth, and Families

**Child Welfare Privatization
Executive Summary**

A report prepared by McCullough & Associates, Inc.

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EXECUTIVE SUMMARY

The Arizona Legislature required in Laws 2005, Chapter 286 (SB1513) that the Department of Economic Security “submit for review by the Joint Legislature Budget Committee options for the privatization of the case management duties for child protective services.” In response to this requirement, the Department (DES) secured the services of McCullough and Associates, Inc. to assess privatization options for Arizona through research and document reviews, and through interviews, surveys and focus groups with key stakeholders in the State. This report provides the results of that analysis.

National Trends in Privatization

Any consideration of options for the privatization of child protective service case management in Arizona requires an understanding of the national context of child welfare privatization. Privatization, generally defined as, “the provision of publicly funded services and activities by non-governmental entities,” has been widely used by child welfare systems across the United States. Three dynamics have characterized the great majority of these efforts to privatize child welfare case management services: 1) a focus on quality through the purchasing of results rather than services, 2) the development of outcomes related to state and federal mandates, and, 3) financing mechanisms that link implicit or explicit incentives to performance. The specific features of these privatization initiatives, however, have varied considerably. Wide differences exist in the geographical reach of these efforts, the range of services privatized, the population served, the degree of public agency involvement in ongoing case management, the structural design of these initiatives, the funding approaches utilized, and the specific mechanisms used to align financing with desired results.

When privatized initiatives are well designed with adequate funds, promising practices and innovations may emerge. For example, independent evaluations have noted that in some initiatives, the privatized case management system introduced best practice strategies that were not always apparent in the previous public system including: system of care designs that reflected Wraparound values/principles, family team conferencing for the development and revision of all case plans, the introduction of evidence-based practices and decision support tools, added supports for case managers and new case management approaches that ensure frequent contact and continuity in care for children and families, requirements that agencies meet national accreditation standards, expanded services created through community service networks, improved use of technology, and added training and supports for caregivers.

In spite of innovations in some initiatives, the privatization of case management services in child welfare has generally produced mixed results regarding both the effectiveness of these efforts in achieving improved outcomes for children and families and cost efficiency. Evaluations of existing privatization efforts demonstrate great variability in the extent to which these initiatives have succeeded in improving the safety, well-being, and permanency of children served by child welfare systems and the well-being of their families. When compared to non-privatized systems, the results have in some cases been far better and in some cases, poorer.

Research studies consistently describe a number of challenges that must be overcome in privatizing case management services in child welfare. In case studies, public child welfare agencies and private case management agencies most often cite difficulties in: developing an adequate data collection and analysis capacity; appropriately defining the roles of private agency case managers and public agency staff; developing needed service capacity; developing the “right” outcomes and appropriately aligning resources with expectations; crafting effective financing strategies; ensuring that private agencies have the requisite practice and business expertise; recruiting and retaining quality staff; and, ensuring that private agencies have an understanding of legal issues and are able to create and sustain effective relationships with the courts. Researchers have also noted other barriers that appear to be correlated with the lack of success of some privatization efforts including: limited funding, rigidity in procedures, problematically drafted contracts, overdone or underdone monitoring, limited consumer involvement, and lack of attention to cultural and linguistic issues.

Based upon national research findings and the interviews with private agency executives conducted as part of this study, key factors for success, across different designs, appear to relate to the sophistication of the purchaser in planning, procurement, and contract oversight; the alignment of resources with requirements; the adequacy of funding and contractor rates; the buy-in from stakeholders; the care with which system designs were developed; the clarity and appropriateness of the expected outcomes; and the infrastructure, leadership, and innovation of the contractor and the public purchaser. Successful privatization initiatives share a number of essential characteristics in common with effective public agency programs, including the following:

- Strong, steady and committed leadership
- Clear vision, goals, objectives, and performance criteria
- Sufficient staffing and other resources to implement the vision
- Continuous and meaningful performance monitoring
- Specific, measurable outcomes
- State-of-the-art information systems that allow private and public service providers to track progress and outcomes
- Resilient interpersonal working relationships between public and private agencies
- Strong ties to the communities they serve
- New business tools and innovative practices

It seems clear that privatization is best implemented through a broad-based planning process that engages stakeholders in a sustained dialogue for the purpose of reaching consensus on the goals of the privatization initiative. In summary, although privatization of child welfare services has been widely used throughout the nation, the privatization of case management services specifically is a much more recent phenomena and has had mixed results - both for its effectiveness in improving outcomes for children and families and in cost efficiency. Not surprisingly, many of the factors that are necessary for successful privatization are the same factors that characterize an effective public sector case management system. Although privatization of case management has in some instances improved results, privatization is not a panacea for an under funded or understaffed delivery system.

Current Performance, Capacity and Interest in Privatization

This assessment of the range of privatization options available to Arizona utilized two major methods: a review of documents relevant to privatization (procurement procedures, performance reports, the Governor's Child Protection Reform Initiative, the Blue Print for Realigning Arizona's Child Welfare Program, the 2005 Auditor General reports, and other internal and external evaluations of DES) and the conducting of focus groups, stakeholder surveys, and interviews with three major stakeholder groups: (1) DCYF staff (CPS specialists, supervisors, assistant program managers, and district program managers), (2) child welfare and behavioral health providers, and (3) external stakeholders (including CASAs, members of the Foster Care Review Board, parents [birth, kin, foster and adoptive], representatives from other state agencies and the judiciary, advocates, and tribal leaders).

Several key findings emerged from the assessment:

1. *Arizona already has privatized a number of services and has many important reform initiatives underway.* Arizona has privatized significant services through contracts with private providers, including but not limited to the following programs and services: Healthy Families Arizona; Family Support and Preservation; Intensive Family Services; Family Group Decision Making, meeting coordination and support; Parent Aide; Family Reunification; Intensive In-Home; Counseling, including individual and group for non-Title XIX clients; Arizona Families F.I.R.S.T., substance abuse treatment; non-therapeutic group homes and residential treatment; foster and adoptive home recruitment, home study, training and supervision; and, Independent and Transitional Independent Living.

DCYF is also partnering with the private sector on implementation of Arizona's Title IV-E Waiver Demonstration Project, Expedited Family Reunification, approved by the U.S. Department of Health and Human Services (DHHS). This Project will enable children with a case plan goal of "return home" to be reunified to a safe home much sooner, with intensive support and wrap-around services and connections to family and community support systems. This project will initially begin in selected sites within Maricopa County (District I). DCYF and community contract providers will partner in providing a wide array of services, including counseling, family centered assessments, team decision making, parenting skills training, home management skills, referral to other services such as substance abuse treatment, supportive links to community resources, discharge and aftercare planning, and the availability of flexible funding to meet the individual needs of families.

In addition, Arizona has made significant system improvements over recent years in the areas of intake and investigation and case planning. Reform efforts include implementation of the Annie E. Casey's "Family to Family" Team Decision Making process in selected sites in Maricopa County; creation of Family Connection Teams to integrate services across DES' Divisions; participation in the Casey Family Programs "Breakthrough Services" on Kinship Foster Care and Reducing Disproportionality and Disparate Outcomes for Children and Families of Color; implementation of child safety assessment and family strengths based risk

assessment tools; provision of family centered practice skills training for CPS supervisors and case managers; and significant revisions to new case manager training provided by the Child Welfare Training Institute.

2. *Consensus is lacking as to the direction for future privatization efforts.* It was clear from the interviews, surveys, and focus groups that a true consensus about the privatization of case management in Arizona does not currently exist. Views were divergent about privatization itself and about the specific case management functions that lend themselves most effectively to privatization. In connection with the direction for potential future privatization efforts:
 - There was broadest agreement in the rejection of any proposal to privatize the centralized Child Protective Services (CPS) report intake function (Hotline) and CPS investigations. After eliminating blank and neutral responses, the majority of all respondents (70%) believe that Hotline functions should not be privatized. Providers overwhelmingly “disagreed” or “strongly disagreed” with the privatization of the Hotline function (79%). Approximately two-thirds of external stakeholders (67%) and of DCYF staff (66%) “disagreed” or “strongly disagreed” with privatization of the Hotline. There was even greater opposition in response to the privatization of CPS investigations. After eliminating blank and neutral responses, the vast majority (89%) of all respondents “disagreed” or “strongly disagreed” with the option of privatizing CPS investigations. DCYF staff were most opposed (93%); followed by providers (86%); and then external stakeholders (80%).
 - After eliminating blank and neutral responses, the privatization of in-home case management elicited very divided responses. Whereas the vast majority of providers (92%) “agreed” or “strongly agreed” with privatizing in-home case management, the majority of DCYF staff (58%) “disagreed” or “strongly disagreed” with that option. The opinion of external stakeholders represented the middle ground between providers and DCYF staff, with the majority (63%) “agreeing” or “strongly agreeing” to the privatization of in-home case management.
 - After eliminating blank and neutral responses, the privatization of out-of-home case management elicited almost equal responses at opposite ends of the spectrum. A slim majority (53%) of all respondents “agreed” or “strongly agreed” with the privatization of out-of-home case management while slightly less than half (47%) of all respondents “disagreed” or “strongly disagreed” with the option. Clear differences were evident across the different types of respondents. External stakeholders were somewhat evenly divided in their opinions, with more respondents agreeing (58%) than disagreeing (42%). Providers and DCYF staff expressed diametrically opposite opinions. Eighty-nine percent (89%) of providers “agreed” or “strongly agreed” with privatization of out-of-home case management and 77% of DCYF staff “disagreed” or “strongly disagreed” with that option. Case management for out-of-home care proved to be an uneasy target for privatization, particularly for DCYF staff.

- After eliminating blank and neutral responses, there was general endorsement of privatizing independent living, adoption and adoption subsidies, with approximately three-quarters of all respondents stating that they “strongly agreed” or “agreed” with privatizing these functions. There was also greater consensus among the stakeholder groups regarding the privatization of these areas than was the case with other potential areas for privatization. Caution is needed, however, in interpreting these findings. Many respondents indicated in the focus groups that they chose these areas for privatization simply because they felt the populations would be relatively small and easily identifiable or because they felt the case management privatization transition might be less disruptive to the overall system if these clearly defined functions, as opposed to others, were privatized.
 - Not all possible options for the privatization of case management were fully explored. Some respondents noted in the focus groups that rather than being asked to choose functions as they currently exist, they would have preferred a discussion about possible benefits of privatizing case management across service areas to improve overall coordination and provide continuity for children and families from entry to exit from the system.
3. *There are strengths in the current system’s business practices indicating readiness to plan and implement a future privatization initiative.* Strengths include:
- Clearly articulated goals and objectives for the major improvement efforts underway.
 - Positive relationships among DCYF, the private agencies, and community leaders.
 - Familiarity on the part of DCYF with structuring contracts and aligning financing to achieve improved results.
 - The ability of CHILDS, the child welfare information technology system, to support many contract and payment functions.
 - An ability to track data on key indicators and aggregate data in the form of performance reports.
4. *Arizona faces significant challenges in improving current services and in moving to privatize case management for any portion of its child welfare service areas.*

The assessment revealed that both DCYF and the private providers would need to invest time and money to prepare for the privatization of case management. Several areas needing remediation were identified:

- Procurement, negotiation and monitoring for compliance. Several challenges were identified in this area: problems with DCYF’s contract negotiation process; the absence of adequate contract monitoring; and DCYF’s failure to hold providers accountable for contract compliance, including requiring the development and completion of corrective action plans when problems are identified. DCYF currently lacks adequate administrative staff and an infrastructure to fully remedy these challenges. In addition, there was

agreement that DCYF would need to reassess its approach to procurement to reward contractors who meet or exceed performance expectations.

Although these challenges were identified by all stakeholders (contracted providers, external stakeholders, and by DCYF staff) who participated in focus groups, it is important to note that over the last year DCYF has implemented several procurement improvement processes that include the following: (1) DCYF now conducts statewide Requests for Information (RFI) meetings to obtain potential provider comments and ideas about a proposed Scope of Work for a service prior to the official release of the Request for Proposals; and, (2) new or renewed requests for contracted services include performance-based contracting components.

To the extent possible with existing resources, DCYF does monitor contracts and attempts to hold providers accountable for contract compliance. DCYF acknowledges that this is an area that could be improved with additional staff capacity. Within the past several months in response to issues raised by the Protecting Arizona's Family Coalition (PAFCO) whose membership includes the Arizona Council of Human Service Providers, DES began a process to improve internal procurement and contract monitoring. The DES Office of Procurement and the Director's Office met with PAFCO and a number of providers, including DCYF providers, to discuss issues and provide education about the procurement process. This meeting resulted in implementation of a plan of Procurement Reform and Education, including further education of providers and DES staff. Planned DES Procurement improvements include the semi-centralization of the procurement solicitation process. By moving the solicitation responsibilities out of the program areas and into the centralized procurement office, some of the needed resources may be freed up to refocus the programmatic efforts on contract administration.

- Access to a full array of quality services and placement options, including behavioral health services. Privatization of case management will not remedy problems caused by inadequate or inappropriate services. Repeatedly, DCYF's performance difficulties were attributed to the inability to access services or appropriate placements that the RBHAs manage. There was agreement that the current access and capacity barriers would need to be addressed if a privatized DCYF case management initiative were to move forward.
- The current work environment. While internal and external stakeholders generally supported the many new DES reform initiatives, DCYF respondents also cited the difficulty in implementing so many reforms in such a short period of time. In addition, staffing shortages and higher caseloads have contributed to low morale and increased caseworker stress. The current DCYF work climate is not conducive to the implementation of any new privatization initiative.

- Communication. Ineffective or ill-timed communication was an issue of concern for all stakeholder groups. There was agreement that if privatization discussions continue, internal and external stakeholders must be kept informed as key decisions are made.
- Provider readiness. Because the private agencies are essential partners in any case management privatization initiative, it is essential that providers be ready to assume new responsibilities. The assessment revealed some wide differences in private agencies' self-assessments of their readiness for privatization of child welfare case management. Of importance to any privatization effort will be the development of readiness criteria, systematic evaluations of providers' readiness to assume responsibility for critical services, and the provision of adequate time and technical assistance, as needed, to ensure that providers have the infrastructure, personnel and competencies to proceed before cases are assigned. Given current DCYF staff capacity this type of support and technical assistance would be difficult if not impossible for DCYF to provide.

Recommendations for Next Steps

As evident throughout this report there are hurdles to overcome and no clear consensus on the best course of action. However, there is also strong support from the provider community and from some external stakeholders to plan and implement a pilot project to test the effectiveness of a privatized case management approach. Based upon this interest and the overall findings of the assessment, the following recommendations are made:

- Make this report widely available to internal and external stakeholders for comment, including those who participated in focus groups and completed surveys.
- Regardless of whether or not the State moves to privatize any case management duties, it is strongly recommended that a DCYF Public/Private Partnership Work Group be formed to build upon the previously described Procurement Reform and Education effort. The focus of the newly created Work Group would not only be to address the barriers identified in this report but also to improve current business practices. It is recommended that if a Work Group is created it be comprised of internal and external stakeholders, including providers, and that the work be organized through the creation of subgroups charged with responsibility for examining and crafting approaches to address the identified issues outlined in the report and in the following framework. Both DCYF and any potential future privatized case management system can benefit from such an effort.

- It is recommended that DES expand its current internal procurement and monitoring improvements to specifically address DCYF challenges. Given the amount of funds that currently support DCFY contracts and the number of children and families already served by private agencies, it is imperative that resources be allocated and plans implemented to address identified quality assurance and monitoring weaknesses. It would be ill advised to expand contracting efforts to include case management until capacity is adequate to monitor and enforce compliance of current and future contracts. Resources may be needed to support needed improvements, which may necessitate Legislative support.
- It is recommended that DES explore any potential legal, financial and risk impacts of privatizing any portion of case management services. Other states have privatized child welfare services, including case management, and have not encountered difficulties regarding their claims for reimbursement for foster care expenses under the federal Title IV-E program. Nonetheless, given the lack of explicit guidance from the U.S. Department of Health and Human Services regarding the impact of privatization on states' claims for reimbursement under Title IV-E, it would be prudent to seek clarification of federal policy in this area. There is also a lack of clarity in state law and court rules that may preclude the private agencies from presenting the "State's" recommendations to the courts as agents of the state. If DES is required to have a state employee present to represent the department in all court appearances, this would result in considerable duplication of effort and expense. It is not clear if the Office of the Assistant Attorney Generals' attorneys would be able to represent the private agency case manager in these court proceedings as this Office does for CPS staff.

A Framework for Arizona Decision Makers

If privatization is to move forward and if the intent of any future privatization of case management is improved results and cost efficiency, significant energy will need to be devoted to planning the effort and to overcoming the previously described challenges. This framework is provided as a technical assistance resource for decision makers and the recommended Public/Private Partnership Work Group to use in improving current practices and weighing privatization options. The following principles provide guidance and raise issues in ten areas that would need to be addressed:

1. *View privatization as a method to improve case management practices and recognize that planning for best practice takes time.* The process would need to acknowledge and expect that DCYF staff and providers need time to plan and perhaps additional resources to implement any case management privatization initiative. Any privatization plan that may emerge from the Public/Private Partnership Work Group would need to be supportive of and consistent with other State reform goals, strategies and initiatives. Key Central Office and District DCYF staff, providers and other external stakeholders would need to be included in the planning process.

2. *Define success.* DCYF staff, provider agencies and external stakeholders would need to be engaged in dialogue to reach agreement on the purpose of any privatization effort and to determine how private agency performance would be measured over time.
3. *Have a clear rationale for selecting the target population and the case management model.* Planners would need to take into consideration current initiatives and examine a range of options for serving the target population, including the development of an integrated system of care. Once the target population and focus are clear, decisions would need to be made about the size of the population to be served and the geographical area(s) for the initiative(s). Pilots in several regions can provide critical information on effectiveness in serving children and families in both urban and rural areas.
4. *Define the roles of DCYF staff, RBHA caseworkers, and the private providers.* Planners would need to look at case management functions throughout the life of a case and, depending on the target population and the case management model, clearly define the respective roles of DCYF workers and private agency case managers, including the RBHAs.
5. *Ensure service capacity.* Gaps in service capacity and access barriers, including those in behavioral health services, must be eliminated prior to the launch of any privatized child welfare case management initiative. Many of the problems faced in child welfare result from a lack of resources and supports for children and families. Privatization will not solve these resource problems.
6. *Design and implement a Quality Assurance/Quality Improvement (QA/QI) and contract monitoring system.* Decision makers would need to draw upon the "lessons learned" from other communities that have struggled to find the right balance in monitoring contracts. DCYF would need to develop standards and quality assurance processes that promote contract compliance and the private agencies' achievement of defined results without stifling the providers' ability to innovate.
7. *Assess data technology needs.* Decision makers would need to examine the State's current information technology capacity and identify enhancements that may be required. Steps would need to be taken to ensure that private providers have the technological and human resource capacity to meet specified data collection and reporting requirements.
8. *Identify funding sources and financing options.* Decision makers would need to determine the funding sources and level of resources that would be needed to support a privatized case management initiative. DCYF would need to work with providers to assess current provider capacity in relation to risk-based financing approaches and carefully weigh the pros and cons of different financing models with that capacity in mind. It would be essential for planners to ensure that control over key case management decisions be balanced with the level of risk assumed by the provider.

9. *Consider staffing and training issues.* Planners would need to assess the impact of any future case management privatization on the DCYF and private agency staff perceptions regarding job security and job satisfaction and the effects of privatization on issues related to salary, benefits, pensions, staff qualifications and training needs.
10. *Chart the course from planning to implementation.* Planners would need to have a process for translating the vision for a privatized case management initiative into a sound procurement and implementation strategy. DCYF would need to determine the best means of engaging district offices and community stakeholders in planning for the transition, without jeopardizing the integrity of a competitive procurement process, and engaging them in the ongoing evaluation and continual refinement of the initiative. A detailed transition plan would need to address the impact of privatization on current DCYF operations (including its capacity to recruit and retain staff), and assess the additional supports, if any, that might be needed in the short term to successfully transition to a privatized system.